



AT&T

Business Local Services

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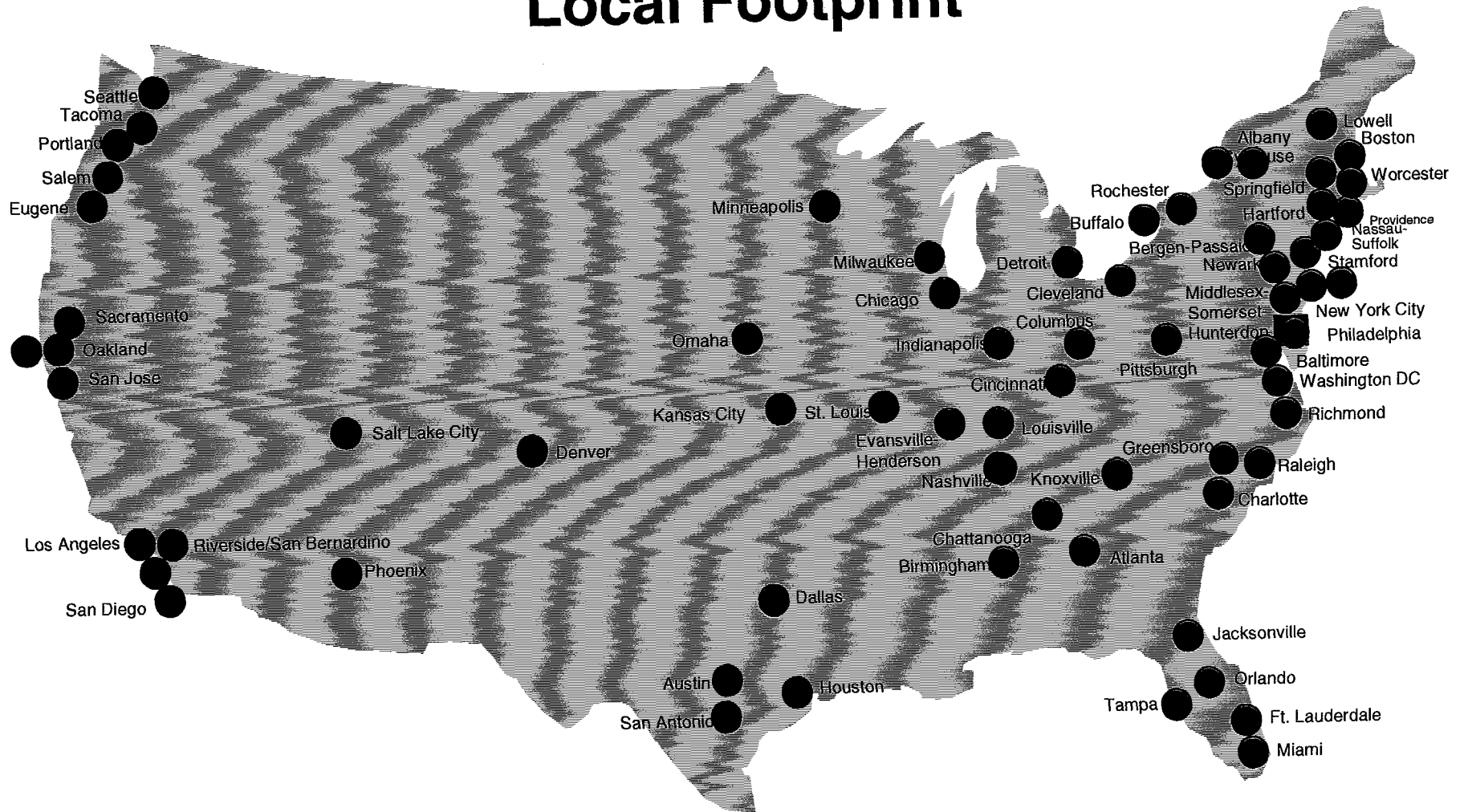
AT&T Business

Innovative Networks. Innovative Thinking.SM.

AT&T Local Investment: Our Commitment To Facilities-Based Competition

- 153 Local LNS Switches
- Over 200 Class 4/Edge Switches
- 90 Cities - 68 LNS MSAs, 328 Total MSAs
- Over 6300 Customer Building Entrances
- 1.44 M Fiber Miles - 17K Route Miles - 7100 SONET Rings
- Broadband Wireless (38 GHz) licenses in 301 MSAs
- Over \$4.5B in capital investment since 1999

AT&T Network Services Local Footprint



Small Business Market Local Voice 2002 - 2003

- AT&T Is Offering A Competitive Local/LD All-Distance Bundle
- Within LNS Switch Footprint
- Currently In 20 Markets
- Offering Expanded to Additional 11 Cities/MSAs 4Q 2002
- Utilize UNE-P For Customer Acquisition
- Where Specific Necessary Conditions Exist (in Limited Areas) Migrate Customers to UNE-L

Attempts at Serving Small Business Customers 1999-2000

- **Attempts at a UNE-L approach were a failure**
 - Process Throughput: One Line at a Time
 - <80K Incremental Lines in 2 Years
 - 54% Cancellation Prior to Conversion
 - IDLC deployment increasingly limits serving opportunities
 - Customer Service Interval: 45 Days from Sale to Dial Tone
 - Likelihood of Service Interruption: 6-9%
 - Highly Inefficient; Poor Customer Experience
 - Unable to Achieve Market Entry Objectives re: Customer Volumes and Acquisition Costs

Market Entry 2001-2002

- **Shifted to UNE-P for Acquisition**
- **UNE-P Provided Necessary Conditions for Entry**
 - Ability to Offer a Competitive All Distance Service Bundle (Local/LD) to All Small Business Locations in a Service Area
 - Ability to Use Mass Marketing to Attract Customers
 - Enabled Electronic Access to Customers, Eliminating Hot Cut Provisioning and Cost Problems
 - Able to Serve Much Broader Segment of the Market Where UNE-P Available Without Line Limits for Voice-Grade Loops
 - UNE Rate Structure that Permits Economic Entry

Market Entry 2001-2002

- **UNE-P Entry Yielded Promising Procompetitive Results**
 - Process Throughput: 5 to 1 Productivity vs. UNE-L
 - >600K Incremental Lines
 - Pre-Conversion Cancellation Rate Cut in Half
 - Customer Service Interval Reduced by Over 60%: 17 Days from Sale to Dial Tone
 - Likelihood of Service Interruption Reduced by Over Two-Thirds: 1-3%
 - UNE-P Created an Efficient and Positive Customer Experience
- **UNE-P Enabled AT&T to Deliver Choice to the Market**

Market Entry 2001-2002

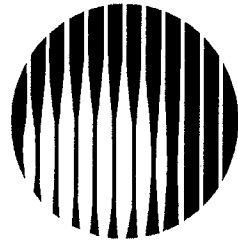
- **Limited Transition from UNE-P to UNE-L**
- **Additional Conditions Required for UNE-L Migration**
 - Assumes UNE-P available for acquisition
 - Processes that Allow for Commercially Viable Customer Migration
 - ILEC Agreement and Ability to Support Project-Managed High Volume Conversions
 - Currently available only in Verizon East
 - Reasonable Cost for Migration – Low UNE-L NRCs and Internal Costs of Migration
 - Reasonable Opportunity to Recover Migration Costs
 - Access to ILEC Loop Testing Systems

Market Entry 2001-2002

- **Additional Conditions for UNE-L Migration**
 - Ability to Implement Cost-Effective Network Design
 - Migration Only for Loops at COs with Collocations Connected to AT&T's Local Network ("On-Net Collocations")
 - On-Net Collocations Cannot be Built to Serve only Voice-Grade Customers
 - Reasonable Collocation Costs
 - Removal of All Use and Co-mingling Restrictions to Encourage Investment in More Collocations
- **Ability to Continue to Serve Small Business Locations with UNE-P Until On-Net Collocations are Available**

Future UNE-L Based Competition

- **Necessary Conditions for Expanded Future UNE-L Competition**
 - ELP or a Comparable Electronic Operational Process that Delivers Loops Without Service Impairment
 - Low-cost cutovers
 - On-going operational performance at parity to ILEC service
 - Continued Availability of High-Capacity Loops, Transport and EELs at TELRIC prices to encourage network expansion
 - Availability of Anticipated New Switching Technologies (e.g., Digital Soft Switches)



AT&T

CONSUMER SERVICES

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ACS Product Management Vice President

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AT&T Consumer Key Message

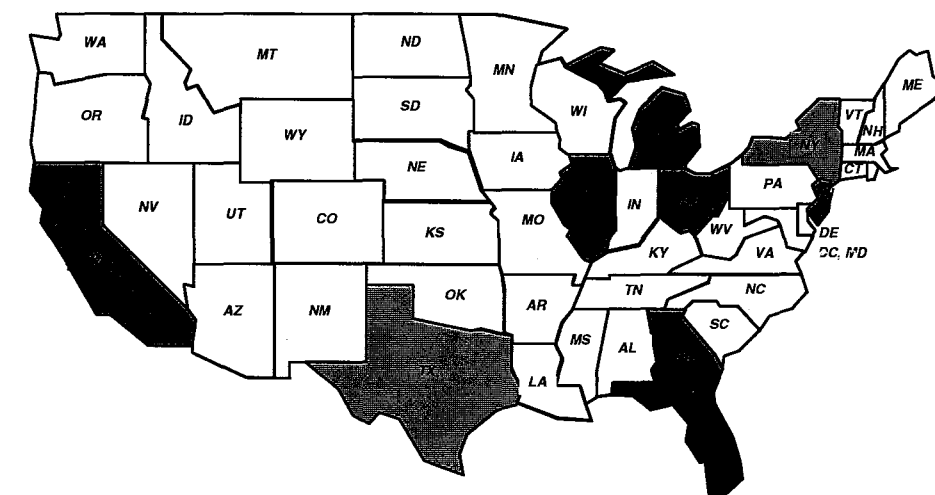
- For regulators, the question is:
 - Do you want residential local competition?
- UNE-P is the only form of local service initially supportable and scalable by AT&T Consumer.
- Despite the passage of six years since the 1996 Telecommunications Act, years have been spent in contentious UNE rate litigation, and local competition is even now in its infancy.
- There is no economically viable, instant form of UNE-L facilities-based residential local service supportable by AT&T.
- We are just beginning to create real choice and consumers are voting with their dollars

Appreciating Combined Local/LD Service Competition

- Consumers buy bundles – Local and LD together just makes sense to them.
- No provider has ALL the pieces needed to provide all services.
 - AT&T purchases local pieces from RBOCs
 - RBOCs purchase long distance pieces from AT&T and other carriers
- RBOCs complain about losing local voice lines and revenue, but they are rapidly winning new revenues from LD services provided on leased facilities.
 - RBOCs have the ability to lease LD networks at over 50% discounts to quickly and cheaply add LD customers at mass-market levels thru a software driven provider change process.
 - Verizon now has 9 M LD customers –a 3 M increase from 1 Q 01 to 1Q 02. During the same period, UNE-P lines increased by 270K –an 11:1 differential.
 - RBOCs LD market share is increasing faster than any other LD competitors in telecommunications history. (Source: L. Selwyn Declaration, FCC 272 NPRM)
 - Verizon achieved a higher market share in NY than any other new IXC, even more than 15 years following the establishment of equal access.
 - Verizon reported at end of 2001, only 2 years after entering NY, that it had captured some 2.3 million residential customers in NY – a 34.2% market share.
 - SBC reported that through 1Q 2001, less than 9 months following 271 entry in Texas, that it had signed up 21% of its 10 million Texas access lines for SBC LD.
 - In contrast, by 1989, roughly 5 years following completion of BOC equal access upgrades, all of the new IXCs combined accounted for only 22.7% of presubscribed lines. Verizon in NY and SBC in Texas achieved greater market share in a little under and over one year!
- And the ILECs get 60 – 70% of the CLEC revenue from local through UNE-P wholesale
- We need UNE-P to compete on an even footing.

AT&T Consumer Remains Committed to Local Services Competition

We Are Offering Local Service in 8 States and DSL in 2 States Today



- Current UNE-P & DSL markets
- Current UNE-P markets

UNE-P:

- ◆ We've invested more than several hundred million dollars in systems development
- ◆ Offering service in 8 states today, reaching 44M customers in RBOC territory & trialing in 1 additional state.
- ◆ Currently serve 1.8 M customers
- ◆ Plans call for additional states in 2003, provided anticipated UNE rate reductions occur. This will extend AT&T Local services to more than 50% of the RBOC BTNs.
- ◆ Our intention is to invest in systems development to facilitate entry in additional states dependent upon favorable rate reductions and positive regulatory environment

DSL:

- ◆ Offering service in 2 states and trialing in 2 more
- ◆ AT&T Worldnet initiating a data-only trial utilizing COVAD's DSL infrastructure

Local Competition Benefits the Consumers

- AT&T experience demonstrates that with each new entry state, market demand is growing.
- It is becoming increasingly clear that consumers benefit from local competition.
 - MI: Following AT&T market share gains within eight months –SBC lowered rates an average of 33 percent in certain plans.
 - IL: Same month as our entry –SBC lowered rates and simplified what's been called the most confusing and complicated rate structure in America. SBC just lowered rates again.
 - CA: In anticipation of our entry –SBC just lowered rates for local as well as collapsing some toll calling zones.
 - NY: Verizon raised rates in NY –AT&T held ours (with a guarantee for at least a year).
 - OH: Within 2 months of our entry, SBC introduced unlimited local toll plans, feature bundling promotions and Privacy Manager free for up to 6 months.
 - GA: BellSouth introduced new feature bundles, full service bundles and promotions including Privacy Manager free for 12 months.
 - NJ: While AT&T was in market trial with a bundled local/LD offer, Verizon introduced "Variations" a new bundled offer combining local, long distance, wireless and DSL

AT&T Consumer's Local Marketplace Challenges

- The residential consumer market has even tougher challenges than business.
 - Lower average revenue per customer which translates into a lower operating margin.
 - A broader footprint with far less concentrated geographical distribution.
- Mass marketing necessary to create customer awareness and receptivity to direct marketing.
- Consumer local service requires a broad customer base to achieve cost benefits of mass marketing, and, therefore, an affordable cost per sale.
- As a CLEC, AT&T inevitably experiences higher internal costs than the ILEC, including and especially marketing and customer service costs.

AT&T's Varied Local Offers Appeal to Wide Range of Customers

- AT&T's entry plans are based on broad entry throughout a geographic area.
 - 31% of AT&T all distance customers are in rural zones
- AT&T offers plans for both low and high value customers including.
 - *Basic offers:*
 - GA: \$17.45
 - NJ: \$8.95
 - TX: \$15.00
 - *Consumers also get a choice of LD offers:*
 - One Rate: \$3.95
 - AT&T Unlimited: \$19.95
 - Can also use any existing LD plan or choose another company for LD
 - *Bundled offers:*
 - GA: \$29.95 unlimited local + 3 features with or without caller id
 - NJ: \$19.95 unlimited local + 3 features including caller id
 - TX: \$25.00 unlimited local + 3 features

Why Consumer UNE-L Does Not Work:

An Analysis of Facilities-Based CLEC Cost Drivers

- AT&T Consumer and Business have the same per-LSO-build investment and operational costs.
- But Consumer's broader service footprint would require ACS to build UNE-L facilities in more LSOs even though the revenues generated by residential customers are lower.
- CLECs spend more acquisition dollars per subscriber than ILECs and must pay Hot Cut costs. These costs reduce the cash available to fund facility investment.
 - In a competitive local market, large percentages of customers will churn before acquisition and Hot Cut costs are recouped.
- Given lower operating margins, AT&T Consumer would never catch up with the cash burn if it built local facilities before achieving a broad base of local voice and DSL customers.

Learnings from AT&T Experience Selling Voice/DSL Bundle

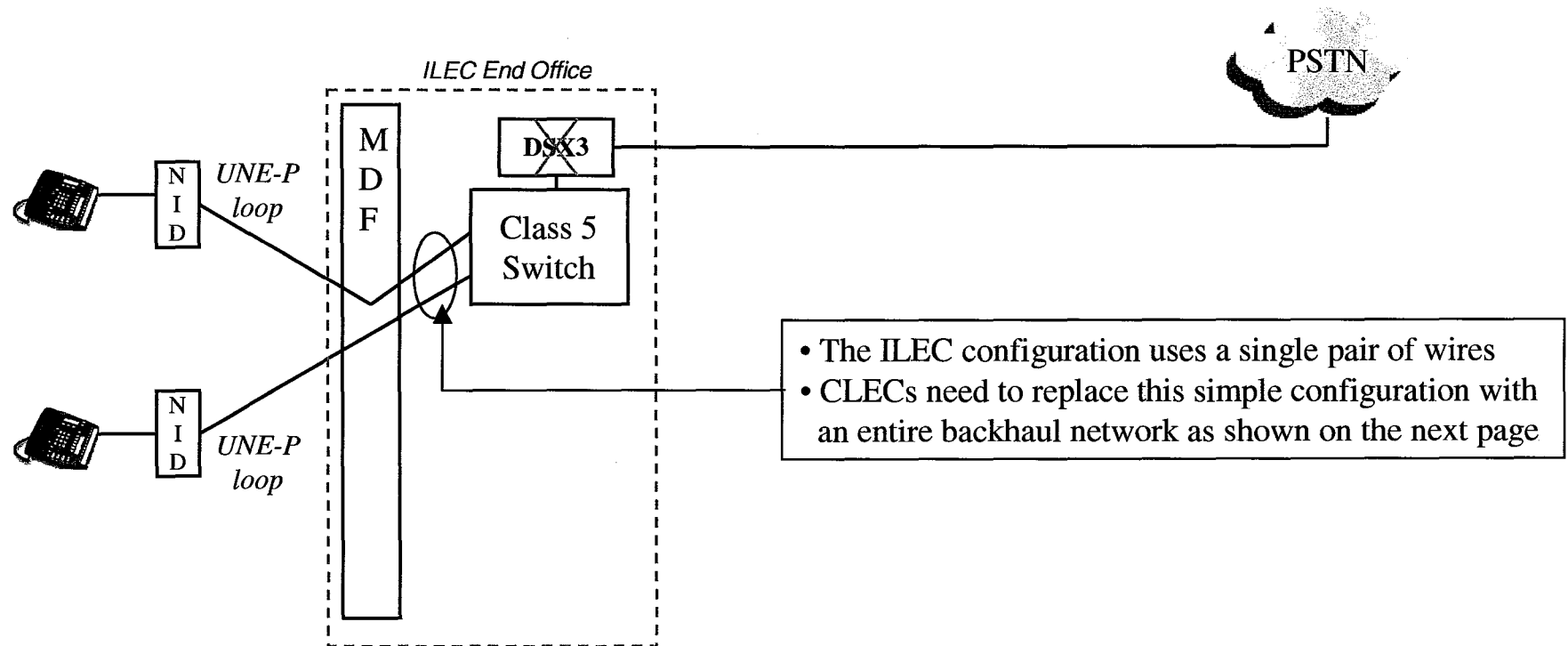
- ILEC local voice market penetration has worked to their advantage in acquiring early and current DSL adopters. ILECs sell DSL to existing local customers.
- Challenging to break into DSL market behind ILECs.
 - Hard to convince customers to change DSL providers after they have gone through effort of setting-up service.
 - Very difficult to sell customers local + data in same customer sales contact
- ILEC DSL customers are walled off from local voice competition.
 - ILEC will not provide its DSL if customer migrates to CLEC local voice.
 - Many DSL customers have term commitments with early termination penalties.
- Cost of deploying data facilities forces AT&T to approach the market in a logical manner: AT&T is entering voice markets to obtain local customers first, then following with DSL.
- Without unbundled access to NGDLC, CLECs are being walled off from DSL competition, and thus future local voice competition as well.
 - With increasing ILEC DLC deployment, a large % of potential DSL customer base behind individual LSOs is unreachable. In some LSOs, more than 55% of the lines are behind DLCs.

How to Support Residential Local Competition

- Given the network design of today's local network, there is no economically viable means of offering facilities based local competition.
- In today's marketplace, sound business principles dictate that AT&T Consumer cannot offer residential local service without UNE-P.
- ELP and evolving and future network technologies offer the pathway to facilities based local competition. By facilitating
 - Cheap local customer migrations between facilities based carriers.
 - Seamless local migrations, such as occur in the LD market and are expected by residential customers who consider loss of dial tone during customer migration unacceptable and disastrous.
 - Methods to reduce UNE-L investment and operating costs.
- Make regulatory decisions that prevent ILECs from walling off significant percentages of the local market from local voice and/or DSL competition.

Backup

UNE-P Voice-Only Architecture



UNE-L Voice-Only Architecture

